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GENERAL DISCUSSION OF TRENDS CONCERNING TRANSNATIONAL CORPORATIONS IN THE WORLD ECONOMY AND TRENDS IN FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES

Transnational corporations in the new world economy: issues and policy implications

Report of the Secretary-General

SUMMARY

The context in which developing countries grow is currently undergoing major changes; those changes are such that it is now possible to speak of a new world economy governing international economic relations. Key features of this changing environment are an expanded role of the private sector in economic development; the continued rapid pace of new technological developments and the central role of transnational corporations in organizing technological activity; the globalization of industries and firms; and the regionalization of economic activity around the three Triad members: the United States of America, Japan and the European Community. Transnational corporations are at the centre of these developments, and it is likely that they are significantly affecting patterns of world trade and technology transfer. As the integrating agents of these activities, transnational corporations are in a position to affect significantly the economic performance of host developing countries in the 1990s, both directly and indirectly.

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The above-mentioned developments raise a number of policy issues for developing countries, at both the domestic and international levels. Domestically, developing country Governments will face the challenge of encouraging economic growth in the context of globalization and regionalization; hence, their policies will increasingly need to take into account the policies of other countries and of transnational corporations. At the present time, however, no mechanism exists through which Governments systematically provide authoritative information to other Governments and interested parties about their foreign direct investment frameworks. Hence, there is a need for increased international transparency in the area of foreign direct investment policies, which would also facilitate the evaluation of those frameworks in order to maximize their effectiveness.

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INTRODUCTION

1. At its seventeenth session, the Commission on Transnational Corporations requested the United Nations Centre on Transnational Corporations to prepare a report that would analyse trends in foreign direct investment in the world economy and their impact on developing countries, including the interrelationship between transnational corporations and other important variables affecting development. Other reports before the Commission analyse the importance of transnational corporations in the world economy (E/C.10/1992/3) and the role of transnational corporations in stimulating growth through the transfer of technology to developing countries (E/C.10/1992/4). Furthermore, an earlier study of the Centre examined the role of transnational corporations as integrating agents of trade, technology and financial flows. 1/ Its findings indicated that transnational corporations were becoming more important actors in the growth performance of host countries. The present report continues the analysis by examining trends that are shaping the world economy in general and the role of transnational corporations in those trends. The findings raise a number of new policy issues for host countries. Consequently, recommendations are made concerning international policy actions that address the challenges presented by the new world economy.

I. TRANSNATIONAL CORPORATIONS AND THE NEW WORLD ECONOMY

A. New perceptions of transnational corporations in the 1990s

2. In the 1990s, transnational corporations are playing a role of increasing size in the world economy and in the competitiveness of nations. This is due in part, to the rapid growth of foreign direct investment in the 1980s. During that period foreign direct investment, driven by a combination of macroeconomic and firm-level factors whose effect is likely to continue, if not accelerate, in the 1990s, averaged 30 per cent growth per year. At the same time, as discussed elsewhere, 2/ transnational corporations integrate within themselves the principal modes of international economic transactions, namely, investment flows, trade, technology transfer and financial flows. These findings point to the fact that transnational corporations have become a major factor in structuring international economic relations and are emerging as increasingly important actors in the development of both home and host countries.

3. However, the increasing importance of foreign direct investment in the world economy is an outcome not only of its growth in recent years. In addition, changing perceptions concerning foreign direct investment - particularly among developing countries but also among many developed ones - ensure that its impact is more significant, regardless of cyclical swings in its amount. Because of these changing perceptions, there has been a fundamental shift in policy-making in this area. The principal aim is no longer to control and contain the activities of transnational corporations, but rather to encourage foreign direct investment (including investment in

sectors previously closed to private, let alone foreign, ownership) in order to reap its benefits.

4. Several concurrent factors are behind this shift in attitudes vis-à-vis foreign direct investment. These factors, which are interrelated, operate on the international level, on the regional level and on the national level. On the international level, new and changing technologies and the globalization of several industries are changing the nature of production and the ways in which developing countries participate in the international division of labour. On the regional level, emerging trends point to a concentration of world economic activity in three main regions: Asia, North America and Western Europe, with growth and integration in those regions driven respectively by Japan, the United States and the European Community (the Triad members). On the national level, recent years have witnessed the opening up of most of the world to private enterprise and some form of market system, so that there are now few countries into which international capital may not flow. These factors, which are examined in the following section, are defining the shape of the new world economy in the 1990s, in which the context for development differs markedly from that of previous decades. Transnational corporations are playing a central role in these changes. An understanding of their contribution to economic development needs to take into account not only their quantitative and functional impacts, but also their importance as actors in the international economic system.

B. The new world economy

1. The shifting balance between State and market

5. The emergence of a new world economy means that the context in which developing countries grow is changing rapidly. One of the most salient features of this changing context is an expanded role for the private sector. One illustration of this trend was the increase, over the period 1986-1988, in private investment's share of gross domestic product in a number of developing countries from 10 to 12 per cent, compared with the slight decline in the share of public sector investment from 8 to 7.5 per cent. 3/. In conjunction with this trend towards an expanded private sector, countries that formerly adopted inward-looking development strategies are, for a variety of reasons, adopting outward oriented policies, for instance, by liberalizing regimes governing trade, foreign direct investment and foreign exchange and generally by emphasizing a more intensive participation in the global economic system. 4/ This shift has been encouraged in part by the example of high growth rates in several Asian developing countries, which have become models of apparently successful outward-oriented development in which market forces and extensive participation in the international economy play a crucial role (even while, in many cases, State policies remain interventionist). Another factor is the debt crisis of the 1980s, which substantially narrowed the margin for State-led development strategies and led to structural adjustment programmes in many countries which, in turn, encouraged a greater role for the private sector and the adoption of outward-oriented policies.

6. The shift towards a greater reliance on market forces has been most dramatic in Central and Eastern Europe, where the centrally planned economic system has literally collapsed. However, it has also been quite marked in Latin America; more recently, in Africa; and, to a certain extent, in China as well. Transnational corporations have been increasingly important in implementing these changes, their role reinforced by a continued low in commercial bank lending in the late 1980s/early 1990s. In Latin America, for instance, there have been widespread efforts to privatize large segments of the economy that were previously State-owned, and transnational corporations are playing an important role in this process. Overall, some 50 developing countries and all Central and Eastern European countries have active privatization programmes.

7. Liberalization, privatization and fiscal reform are all expressions of this fundamental shift in policy orientations in many parts of the world. Increased competition between firms and economic areas (and heightened concern about unfair competition), focused especially on the Triad, has been one of the consequences. In any event, this development has placed transnational corporations, as the leading international market actors, in the centre of economic development in a world where virtually all countries are now seeking to integrate themselves into the world economy.

2. Technology and the shrinking of economic space

8. While these changes are redefining the ideological and regulatory context of development, changes in the nature and uses of technology are also redefining the ways in which countries develop. Since the 1970s, economic growth has been increasingly associated with new technologies rather than with the use of natural resources, such as energy and minerals. This reflects the fact that production itself has become less materials-intensive and more skill-, knowledge- and technology-intensive. Furthermore, new communications technologies are rapidly shrinking the economic distance between countries and may be viewed as "the electronic highways of the informational age, equivalent to the role played by railway systems in the process of industrialization". 5/ New communications technologies are allowing for a far greater degree of economic internationalization than was previously possible. In this regard, it is interesting to note that the volume of international communications mirrors international economic relations and, indeed, current trends in foreign direct investment: the highest volume of international calls occurred between the United States and Canada, the United States and the United Kingdom of Great Britain and Northern Ireland, and the United States and Mexico, while the greatest growth in international telephone traffic was situated in the Pacific rim, fuelled by 23 per cent annual growth in outward calls from Japan versus 18 per cent from the United States. 6/. A recent study found that with the current installed capacity of fiber optic and satellite communications networks, international calling volumes have been doubling every three to five years, while the prices of such calls have been falling by about 10 per cent per year. 7/

9. In recent years, the technological capacity to process and send information has proceeded far more rapidly than the ability to adapt organizationally to the new possibilities that such technological capacity presents. For instance, the processing power of an integrated circuit doubles every 18 months, and the transmission capacity of light wave systems (based on fiber optics) is increasing even more rapidly, doubling every year. 8/ By the late 1990s, it may be possible to combine the computing of data with photonics, so that computers will be powered by light waves. Such developments could lead to a new generation of computers that would be far more powerful than those of today.

10. Although the economic impact of such changes are only beginning to be felt, there are already signs that new technologies, particularly information technologies, are leading to a fundamental change in the way goods are being produced and services delivered (and, indeed, in what goods and services) and in the organization of production, both within and between countries. In fact, elements of a new global production system seem to be emerging, characterized by greater integration, geographically decentralized organization and new production methods. Again, transnational corporations are at the centre of such developments, as far as the generation, application and transfer of these new technologies are concerned.

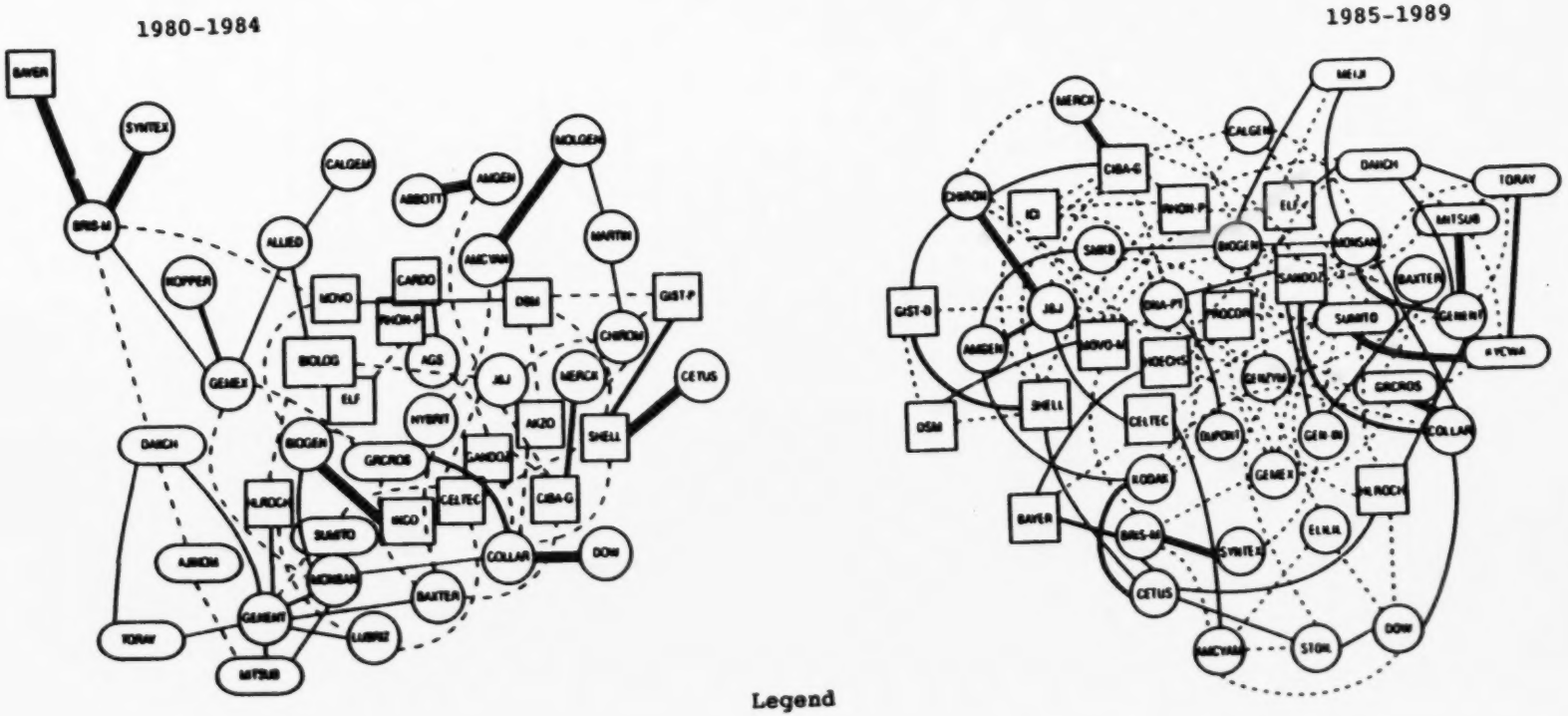
11. The relationship between transnational corporations and technological change is a dual one: transnational corporations are key actors in the development of technology; at the same time, they are greatly influenced by it. In fact, technology developments are a major factor behind the growing importance of transnational corporations and their increasingly global strategies, which are often motivated by the need to gain control over the development and use of new technologies. Such strategies imply that a rising share of the world's technology flows is being controlled by transnational corporations or transnational corporation networks and that transnational corporations are increasingly important vehicles for technology transfer to host countries (see document E/C.10/1992/4). This trend, combined with the ever-increasing pace of technological developments along with the rising costs associated with such developments, implies that the scope for countries - both developing and developed - to create a purely indigenous technological base may narrow. Instead, countries may need to rely more on inward and outward foreign direct investment in order to gain access to technologies that are critical to their competitiveness. This is accentuated by the fact that licensing may no longer be effective in acquiring many technologies, not only because obsolescence occurs more quickly than in the past, but also because effective use requires more training, both initial and ongoing, of human resources. To the extent that transnational corporations do not transfer technology to indigenous firms, the vulnerability of countries to the loss of technological competence may increase, if such competence is gained only through the presence of large firms over which countries have limited control and which may shift their activities elsewhere. Thus, while technological developments are offering new opportunities for developing countries with adequate infrastructure and human resources to absorb them, the mechanisms through which such technologies are transmitted are converging on transnational corporations.

12. The question of access to technology via transnational corporations is further complicated by the new organizational structures that are emerging in the international economy as firms seek to access and obtain the maximum benefit from new technological developments. Increasingly, interfirm networks, whereby firms in a network share the information as well as the costs associated with innovation, are being employed by competing firms in a given industry. Strategic alliances, joint ventures and research consortia are all expressions of such interfirm networks. These networks are emerging for a variety of reasons, key among them being the need to reduce uncertainty regarding which technology will become the future industry standard; the desire to share complementary strengths in research and development and pool the costs associated with such activity; and the wish to share benefits once they materialize. Such multifirm networks lower the costs of accessing and utilizing new technology for member firms, while the costs for non-members may be raised considerably. In addition, powerful transnational computer communications networks controlled by single firms or groups of firms are becoming more important, and some transnational corporations are setting up central data-processing centres for an entire continent, with high-speed links connecting them to national offices. 9/. In some industries, for example, banking, insurance, hotels and airlines, such electronic networks are becoming the basis for international transactions and access to them is therefore a crucial matter.

13. During the 1980s, strategic partnering in high-technology industries accelerated greatly, as illustrated by the biotechnology industry (see figure). Similar developments can be documented for two other new technologies, information technology and new materials. 10/ A number of changes in the nature of competition in high-technology industries - such as the shortening of product life cycles and the increasing complexity and intersectoral nature of new technologies - were behind the acceleration of interfirm networks in the 1980s. Furthermore, advances in information and communications technologies that were shrinking economic distance made such networks more feasible. While it is difficult to measure the extent of these phenomena, all evidence indicates that both technology-pooling organizational networks and electronic data networks are taking place almost exclusively in the Triad.

14. From the point of view of developing countries, the emergence of inter- and intrafirm networks raises two important questions. The first is whether, in general, such networks are raising entry barriers to the process of technology-driven growth. Secondly, it may be asked whether, given the existence of networks that are controlled by transnational corporations and remain concentrated in developed countries, rising foreign direct investment flows are indeed associated with improved access to key technologies.

The structure of strategic partnering in the biotechnology industry in the 1980s



Source: J. Hagedoorn and J. Schakenraad, "Leading companies and the structure of strategic alliances in core technologies", MERIT research memorandum 90-001 (Maastricht, Netherlands, 1990).

3. The globalization of industries and firms

15. Partly because of greater competition associated with the expanded role for the private sector and partly because of the impact of new technologies, many firms and entire industries have become global in nature. In many cases, deregulation and macroeconomic shifts have facilitated this trend towards globalization. The world financial industry in particular, but also the automobile and consumer electronics industries, are examples of globalized industries, in which transnational corporations integrate, coordinate and control value-adding activities in numerous countries, both developed and developing. One of the key implications of globalization is that the nation State is diminishing in importance as the key arena for economic activity.

16. The globalization of industry means, to a large extent, that the way countries grow and develop comparative advantage is changing considerably. As a result of globalization, countries may become specialized locations for one segment of an industry (engines in automobiles, semiconductors in electronics, data entry in banking, for instance) and, in the process, become significant players in that industry. In some cases, countries in a given region develop concurrently a comparative advantage in an industry, with growing intraregional intra-industry trade as a result. Sources of comparative advantage - capital, know-how, experience and technology, for instance - are thus transferred across borders in greater quantities as more and more countries participate jointly in various stages of the value-adding process of an industry. In other words, globalization means that the boundaries that define an industry are increasingly being drawn across countries rather than within them. The implication of this trend is that strategies to develop independent indigenous industries may, in many instances, no longer be appropriate for developing a dynamic comparative advantage and participation in global industries may be a necessary ingredient for the development of a competitive economy.

17. The intra-industry, cross-border flows of goods, services and technology that characterize a global industry are, to a large extent, controlled by transnational corporations. Indeed, transnational corporations are the driving force behind the globalization of industries, although there is a distinction to be made between global industries and global firms. Such firms control a growing share not only of world investment and output, but also of world trade and technology flows. Among other things, the existence of global firms means that competition in certain industries is occurring less between countries than between firms that compete simultaneously in a number of countries. It may now be possible to describe some corporations as stateless, in the sense that their management, organizational structure and value-adding activities are no longer governed by any single country.

18. Given these developments, the globalization strategies of transnational corporations are likely to change the ways in which foreign direct investment affects the growth of host developing countries. Until recently, most foreign direct investment in developing countries could be characterized as either resource-seeking, market-seeking (particularly if policies favoured protected

local industry) or export-oriented (mainly to take advantage of abundant cheap labour). In each case, the contribution of foreign direct investment to growth was limited by the comparative advantage of the host country in the particular activity concerned; if wages rose, for instance, "footloose industries" might be shifted to lower-cost export platforms. Globalization strategies, however, are blurring the boundaries among these types of investment, particularly those of the last two: investments in developing countries by global corporations are increasingly both market-seeking and export-oriented. Furthermore, cheap labour is not the primary consideration for global corporations which mainly operate in high-technology industries; consequently, rising wages do not necessarily lessen the locational advantages of host countries. A number of developing countries that began with the primary advantage of cheap labour have succeeded in upgrading the technological competence of their workforce with the result that they continue to attract transnational corporations even after their relative wage advantage has deteriorated. In other words, the globalization of firms, in which value-adding activities are dispersed geographically and integrated within a single firm, is leading to a situation whereas transnational corporations upgrade their overseas affiliates from simple assembly-type operations to high-quality, high value-added manufacturing sites that are integrated into a network of overseas affiliates, foreign direct investment may become a driver of dynamic comparative advantage. Foreign direct investment, then, may become an integral part of the growth process for countries included in the globalization strategies of transnational corporations.

4. The regionalization of the world economy and the emergence of the Triad

19. The regionalization of the world economy is, somewhat paradoxically, a corollary to increasing globalization; it is also reshaping the context in which developing countries grow. Globalization has not as yet produced a world in which nations interact with others equally, regardless of their location; rather, economic activity, even as it becomes more dispersed, is being increasingly concentrated in three major regions: Asia, North America and Europe. The three Triad members - Japan, the United States and the European Community - represent respectively the core economies in each of these regions and act as principal sources of technology, capital and trade for surrounding countries. One expression of this trend has been the emergence of clusters of developing countries around each pole of the Triad. Within such clusters countries in a given are dominated by investment from a Triad member in that region. 11/ The strategies of transnational corporations and changes at the policy level to foster regional economic integration are behind this shift to a tripolar structure. Regionalization implies that, in the 1990s developing countries are likely to forge their primary economic linkages with the Triad member in their region and that a strategy of opening up to the world at large may prove more difficult (as illustrated by the case of Mexico, which recently shifted from a policy of attracting foreign direct investment from many sources to one centred mainly on the United States). 12/ Regionalization also implies that developing

countries that are not linked to a Triad member may become increasingly marginalized and their growth prospects correspondingly constrained.

20. Transnational corporations are playing a much greater role in this phase of regionalization than in past periods (for instance, during early integration efforts in the European Community). In fact, moves towards regionalization on the policy level are in many cases driven by the regional strategies of transnational corporations from the Triad. Regional integration brought about through foreign direct investment is likely to be deeper than integration brought about through trade, in that the former implies integration of national production systems and hence of the regulatory regimes that govern those systems. Integration through foreign direct investment may thus lead to a certain degree of integration of national policies, for instance in the areas of labour, monetary policy and the environment. One issue in this current phase of regional integration is the degree to which home and host country policies will converge and how regional policy regimes will be constructed to reflect the interests of both home and host countries.

21. In this regard, it is instructive to look at the strategies that transnational corporations are employing to bring about the current phase of regionalization in the world economy. At all three poles of the Triad, but particularly in Asia, many transnational corporations are implementing regional core network strategies, in whose framework they establish affiliates within a cluster of countries (both developed and developing) in a given region, with each affiliate performing a discrete value-adding activity. 13/ The output of each affiliate is then integrated by the parent firm with the output of other affiliates in the region, hence forming a regional network typically centred on a Triad member. In such strategies, intrafirm trade among affiliates plays a central role, as the firm combines the output of one affiliate with the output of another (sometimes in a third location, sometimes in all locations simultaneously) in order to produce the final product. Such networks are an outcome of, as well as a factor behind, the increasing regionalization of the world economy and the clustering effect described above, in which a number of developing countries in a region are dominated by foreign direct investment from a single Triad member. Current trends in national policies, technology and international competition are likely to facilitate the continued growth of regional core networks.

22. It is also likely that the regional networks of transnational corporations are increasingly shaping patterns of world trade. An analysis of such patterns, shown in the table, reveals that, in the 1980s intraregional trade outpaced world trade to a large extent. The strategies of transnational corporations to build regionally integrated, independently sustainable networks of overseas affiliates at each of the three poles of the Triad are likely to be an important factor driving this pattern, along with regional integration programmes in the European Community and North America. Important examples that lend support to this hypothesis are the regional networks that have emerged in Europe and that are emerging in Asia; the latter are, at present, the most advanced networks in the Triad involving developing countries.

Share of intraregional trade in total trade, 1980-1990

(Percentage)

Region	1980	1990
European Community	56	61
North America a/	27	35
Asia b/	37	41
Developing Asia c/	24	33

Source: United Nations, Monthly Bulletin of Statistics, vol. XLV, No. 6 (June 1991).

a/ Comprising the United States of America and Canada.

b/ Including Japan.

c/ Excluding Japan.

23. Asian growth in recent years has been so rapid as to have been dubbed an "economic miracle" and has certainly been one of the most remarkable developments experienced in the 1980s. As mentioned above, the Asian experience is now held up as a model for other developing countries to follow, with outward-oriented growth being the prime feature of this model. A look at Asian trade patterns reveals that much of this outward orientation is towards the region itself; in the latter half of the 1980s, intraregional trade (including Japan's) grew by 23 per cent a year and in 1990 accounted for 9 per cent of total world trade. Indeed, intraregional trade now accounts for a larger share of Asia's trade than trade with any other single region. 14/ Furthermore, growth in intra-Asian trade has occurred in the absence of a regional policy framework; in fact, it is only now that the Association of South-East Asian Nations (ASEAN) is, as an institution, ready to make substantive progress towards regional integration at the policy level. Rather than having been the result of policy measures to encourage trade between Asian countries, intraregional trade has largely been driven by foreign direct investment. Intraregional trade was initially driven by Japanese transnational corporations and is increasingly being driven by Asian developing country transnational corporations, which now invest as much in the region as those Japanese transnational corporations. To the extent that regional network strategies are implemented in other parts of the world - as indeed they are beginning to be in Mexico and Central and Eastern Europe, for instance - foreign direct investment will increasingly structure the trading relations within and between the major regions of the world economy.

5. Transnational corporations as integrating agents for development

24. Other reports before the Commission examined transnational corporations in the context of their importance in absolute terms in the world economy (E/C.10/1992/3) and in terms of their contribution to growth through technology transfers to developing countries (E/C.10/1992/4). The above discussion adds another dimension to the growing importance of transnational corporations, namely that of their critical connection to the main elements defining the new world economy: a greater role for private sector investment, both domestic and foreign; the development and transmission of new information and production technologies, often through transnational-corporation-controlled networks; participation in global industries; and the strengthening of regional economic ties centred on a Triad member. Together, these elements make transnational corporations key organizers of economic activity and markets, as well as wealth-creating agents that allocate globally a large proportion of the resources necessary for the process of economic growth, especially when that process takes place in an internationally competitive environment. The above observations point to a need for policies to deal with the growing role of transnational corporations in development in order to increase flows of foreign direct investment to developing countries, maximize the benefits of that investment and ensure a stable policy environment.

II. POLICY IMPLICATIONS: INTERNATIONAL TRANSPARENCY OF INVESTMENT POLICIES

A. The rationale

25. The preceding section raised a number of issues that present new policy challenges as well as opportunities for Governments in the area of foreign direct investment. Foreign direct investment policies can affect the overall level, sectoral composition and direction of capital flows and of the trade and technology flows associated with them, as well as the degree and type of international integration effected between countries. 15/ As a result, national foreign direct investment policies in one country can affect economic performance in other countries, especially given the growing importance of transnational corporations as integrating agents of trade, technology and financial flows. For instance, high local content requirements in one country may dissuade imports from another. Similarly, incentives to transnational corporations to export from a host country may affect the trade balances of that country's trading partners (by increasing their imports and/or reducing their exports). Home country policies to encourage outward foreign direct investment in particular regions or sectors will also influence the distribution and composition of foreign direct investment. Policy-making in the area of foreign direct investment thus has international, as well as national, implications.

26. In order to be effective, policy-making requires information about a wide variety of interrelationships that occur at both the national and international levels. In the context of increasing interdependence driven by

the activities of transnational corporations, both Governments and transnational corporations rarely have access to the information that would give them a complete understanding of the complex processes by which such integration is taking place. Hence they are often unable to properly evaluate the potential consequences of a given policy decision and its interrelationship with policies in other countries. Thus, improved access to information about international investment policies is critical to effective policy-making that promotes an efficient international system for Governments and transnational corporations alike.

27. A first step towards improving such information is to increase international transparency in the area of foreign direct investment policies. 16/ Currently, no international mechanism exists through which Governments make their foreign direct investment policies, laws and regulations readily available to each other and to foreign investors. In part, this lack reflects the fact that foreign direct investment is not governed by an international framework of rules that would necessitate international notification and reporting as a means of ensuring the adherence of the contracting parties to their agreements. Despite the absence of such a framework, however, there is still a need to increase international transparency in the area of foreign direct investment, with regard to both home and host countries. Such transparency would be basic to ensuring that all interested parties were fully informed about policy and regulatory frameworks in the area of foreign direct investment and could take these frameworks into account in their decision-making.

28. Currently, international transparency is required in the area of trade, where the contracting parties of the General Agreement on Tariffs and Trade are obliged to submit their relevant trade policies and any changes therein to the Secretariat on a regular basis. Other international organizations, such as the International Monetary Fund, the World Bank and the Organisation for Economic Cooperation and Development routinely collect information regarding policies in their relevant areas of responsibility; however, none of them provide a mechanism for all countries for international transparency in the area of foreign direct investment.

29. In this regard, a mechanism is therefore proposed through which Governments could systematically and periodically inform other Governments as well as other interested parties about their policies and regulatory frameworks relating to both inward and outward foreign direct investment. Countries could participate on a voluntary basis, although a large number of participating countries would be desirable in order to provide a comprehensive overview of prevailing policy frameworks. Policy instruments that could be subject to greater international transparency would include, at a minimum, those that bore directly upon the activities of transnational corporations, in particular, foreign direct investment policy statements, laws, regulations and administrative guidelines (including those relating to incentives and performance requirements); bilateral investment treaties; double taxation treaties; and instruments dealing with technology transfer and the repatriation of earnings. In addition, policies that significantly impacted

the locational decisions and activities of transnational corporations could also be made more transparent; these might include certain laws and regulations regarding employment, the environment and intellectual property rights. While transparency could not extend to coverage of contracts and agreements between Governments and transnational corporations (since most of them are not in the public domain), those contracts that had been published in the official gazettes could be included, at the discretion of a particular Government. In sum, it would be desirable to make countries' overall foreign direct investment regimes more transparent, including all policies that apply directly to transnational corporations.

B. The benefits of increased transparency of investment policies

30. Increasing international transparency in the area of investment policies carries a number of benefits for host and home countries and for transnational corporations. Increasingly, foreign direct investment issues are at the heart of international and bilateral policy discussions on issues such as trade and technology. The growth of Japanese foreign direct investment in the United States and Europe, for instance, is likely to influence any future discussions in the area of trade with Japan; similarly, European Community technology policy, which promotes joint research programmes, will increasingly have to consider the implications of the growing numbers of non-European transnational corporations active in high technology industries in the Community. Without being informed of the foreign direct investment policies of countries, the international community is likely to encounter increasing difficulties in constructing policies to promote a stable and efficient functioning of the international economic system. As outlined above, transparency would encourage efforts to create a more favourable environment for foreign direct investment flows and would also support multilateral efforts in related areas, such as trade and technology.

31. Perhaps the most important beneficiary of increased international transparency of foreign direct investment policies would be host countries themselves, particularly those with limited information-gathering resources. By disseminating information about the regulatory frameworks that govern the activities of transnational corporations, countries facilitate the decision-making processes of transnational corporations, especially those, of small or medium size, that have limited capacities to obtain relevant regulatory information. In the current environment of increased liberalization, many host countries are instituting policy regimes that are more favourable towards foreign direct investment than those in the past; in order for such policy shifts to have their desired effect, it is necessary for them to be made widely available in a systematic manner. Furthermore, by having ready access to information concerning home country policies, host countries may be able to tailor their inward foreign direct investment policies more effectively. As a result, countries may attract additional foreign direct investment, to the extent that such investment was previously not forthcoming due to limited information about the relevant regulatory

framework. Increased international transparency also relieves host countries of the need to convey legal information to foreign investors on a one-to-one basis. In addition to facilitating investment inflows, greater transparency of investment policies may also facilitate access to other international resources, such as credit and technical assistance.

32. Greater international transparency of foreign direct investment policies may also improve the benefits of foreign direct investment to host countries by improving their bargaining position vis-à-vis foreign investors. If information about the regulatory regime for foreign direct investment were easily available, it might be less likely that foreign investors could encourage competition among potential host countries for a given investment through the granting of ever more generous concessions. While competitive bidding for foreign direct investment would not be eliminated by increasing transparency - Governments and transnational corporations are free to negotiate and enter any agreement of their choice - such bidding would at least take place in a more open environment.

33. Increased transparency of investment laws would, from the perspective of transnational corporations, enable them to make better foreign direct investment decisions in an overall improved policy environment for their international activities. More specifically, increased transparency would improve the climate for foreign direct investment by providing transnational corporations - particularly small- and medium-sized ones and those from developing countries - with readily accessible, authoritative information about host countries, presented in a standardized format by a neutral party. Currently, there is no such mechanism available, and it is likely that incomplete information is, in some cases, resulting in an allocation of foreign direct investment that favours a limited number of countries.

34. Other important reasons why transparency improves the investment climate for transnational corporations is that it helps promote the stability of investment policies (countries are less likely to resort to frequent rule changes if such changes are consistently recorded) and may lessen the power of special interest groups to influence domestic policy. Both factors are important elements in facilitating an objective assessment by transnational corporations of host country regulatory frameworks.

C. Options for implementation

35. To increase the international transparency of regulatory frameworks for foreign direct investment, the Economic and Social Council, on the recommendation of the Commission on Transnational Corporations, could request all Governments to inform the United Nations Centre on Transnational Corporations of all their policies, laws, regulations and administrative guidelines that bear directly upon the activities of transnational corporations. The request for information could also be extended to such instruments as have a significant impact on the locational decisions and

activities of transnational corporations. Submission would be on a voluntary basis; however, every effort should be made to encourage all countries to participate in the process.

36. The Centre would compile the submissions in a standardized format, organized by reporting country and supplemented by information obtained from other sources. The presentation of the regulatory framework of each country would be sent by the Centre to the competent official authorities of that country for verification or, to facilitate the process, to one national contact point designated by the Government. The Centre could also send the text to other interested parties for comments; such parties could include other international organizations, Governments of other countries and private entities, for example, chambers of commerce.

37. After verification, the Centre would publish and disseminate widely the collected information in the form of an authoritative catalogue. The publication would contain, on a country basis, the names and sources of the policy statements, laws, regulations and administrative guidelines comprising the foreign direct investment framework. As a further service, the catalogue could highlight important regulatory instruments through brief annotations and include selected statistics from the Centre's World Investment Directory, in order to present a more complete picture of the investment climate of a given country. The reports would be updated on an annual basis by the Centre and disseminated widely to Governments, business organizations and transnational corporations.

III. CONCLUSION

38. In the past several years, foreign direct investment has assumed a major role in international economic relations. In addition to the fact that foreign direct investment outflows are rapidly growing, both in absolute terms and in relation to world trade and output, the activities of transnational corporations are dominating current trends that are reshaping the world economy. Those trends include a greater role for the private sector and increased liberalization of policies, increased economic integration through new communications technologies, the growth of transnational-corporation-controlled networks in which many new technologies are developed and disseminated, the globalization of industries and the regionalization of the world economy, centred on the Triad. Indeed, the current phase of world economic growth and integration is likely to be driven by the activities of transnational corporations to a greater extent than ever before, with a corresponding rise in the impact of foreign direct investment on host countries' growth and development and shifts in the foreign direct investment policy environment.

39. Despite the major role of foreign direct investment in international economic relations, there is no mechanism through which Governments may systematically provide authoritative information to other Governments and other interested parties concerning their foreign direct investment policies. In the above discussion, therefore, measures to improve transparency in the

area of foreign direct investment were outlined. If adopted, these measures would result in the establishment and dissemination to a wide audience of an authoritative catalogue of the policy statements, laws, regulations and administrative guidelines that comprise reporting countries' foreign direct investment policy frameworks.

40. While a reporting system of this type is in and of itself a desirable objective for both Governments and the private sector, it could also provide the basis for improving investment policies through policy evaluations and reviews. Such evaluations would have to take into account the long-term indirect consequences of a given policy, which are often greater than the direct short-term impacts. Hence, in order to meet national policy objectives, it would be desirable to go beyond the information contained in a catalogue of foreign direct investment policy frameworks and carry out analyses and evaluations of those frameworks. Such policy reviews could greatly amplify the efforts of countries to maximize the benefits of foreign direct investment, both inward and outward, to their economies. In the long run, as a result of more effective, informed policy-making, a strengthened policy evaluation system based on improved international transparency could lead to an increase in the amount and quality of foreign direct investment inflows.

Notes

1/ World Investment Report, 1991: The Triad in Foreign Direct Investment (United Nations publication, Sales No. E.91.II.A.12).

2/ Ibid.

3/ The figures are derived from a study of 27 developing countries by the International Finance Corporation. The study was reported in "Developing nations increase reliance on private sector", Financial Times, 11 September 1990.

4/ There are even signs that a more open environment for the movement of skilled labour is emerging. As far as unskilled labour is concerned, however, and in spite - or because - of mounting migration pressures within developing countries and between North and South and East and West, the trend appears to be towards tighter restrictions, leading to a noticeable asymmetry in the treatment of international factor flows.

5/ Manual Castells and Jeffrey Henderson, "Techno-economic restructuring, socio-political processes and spatial transformation: a global perspective", in Global Restructuring and Territorial Development, Jeffrey Henderson and Manuel Castells, eds. (Beverly Hills, California, Sage Publishers, 1987), pp. 1-17.

6/ International Institute of Communications, "Global telecommunications traffic report - 1991", cited in Network World, vol. 8, No. 39 (30 September 1991), pp. 21-22.

Notes (continued)

7/ Ibid.

8/ Eric E. Sumner, "Telecommunications technology in the 1990s", Telecommunications, vol. 25, No. 1 (January 1989), pp. 37-38.

9/ Monica Horton, "Private networks: backbone of the worldwide corporate structure", Financial Times, 7 October 1991.

10/ J. Hagedourn and J. Schakenraad, "Leading companies and the structure of strategic alliances in core technologies", MERIT research memorandum 90-001 (Maastricht, Netherlands, 1990) and Luc Soete, "National support policies for strategic industries: the international implications", in Strategic Industries in a Global Economy: Policy Issues for the 1990s (Paris, OECD, 1991), pp. 51-80.

11/ World Investment Report, 1991 ...

12/ Foreign Direct Investment and Industrial Restructuring in Mexico, ST/CTC/Ser.A/18 (United Nations publication, forthcoming).

13/ See World Investment Report, 1991 ..., pp. 41-53, for an elaboration of regional core networks.

14/ Asian Development Bank, Asian Development Outlook, 1991 (Manila, Asian Development Bank, 1991), p. 43.

15/ Factors besides government policies, such as market size and firm-specific advantages, are also very important (and may even be more important than those policies) in determining foreign direct investment flows. See "Determinants of foreign direct investment and their policy implications: report of the Secretary-General" (E/C.10/1991/7).

16/ There is a concurrent need to improve disclosure of information by transnational corporations, an issue that is being dealt with within the framework of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR).